Increase Borrowers' Payments. A second alternative would continue lending at the present volume but would raise the costs to new borrowers. If, beginning in 1988, new FmHA borrowers paid 28 percent of their incomes for housing costs--the rate now charged under a comparable program sponsored by the Department of Housing and Urban Development (HUD)--federal outlays would be cut by $35 million in 1988 and $590 million in the 1988-1992 period. Thus, this option would eliminate a disparity between the HUD and FmHA programs. On the other hand, increasing the percentage of income that rural households would pay toward housing costs could shift the composition of borrowers away from households with the very lowest incomes. In addition, having higher housing costs relative to income might lead to higher default rates among new program participants.

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NDD-03 REDUCE FUNDING FOR RESEARCH SUPPORTED BY THE NATIONAL INSTITUTES OF HEALTH

Savings from CBO Baseline	Annual Savings (millions of dollars) 1988	1989	1990	1991	1992	Cumulative Five-Year Savings
Budget Authority	320	330	350	370	390	1,750
Outlays	140	310	340	360	370	1,520

The federal government will spend about $6 billion for health research funded through the National Institutes of Health (NIH) in 1987. About four-fifths of the NIH research budget is awarded to universities and hospitals through research grants, contracts, and centers. The remainder is spent on research within the Institutes and for administration. If appropriations for NIH research were reduced by 5 percent, the 1988-1992 outlay savings would total about $1.5 billion.

The NIH could reduce research spending in several ways--for example, by reducing the number of grants awarded. Since funding of projects is based on a rating system, proposals with the highest ratings would continue to be supported. The NIH could also limit the overhead costs of research grants, which might have only limited effects on the amount of research actually undertaken. Alternatively, research projects could be funded at 95 percent of cost, thereby encouraging researchers to find additional sources of support for their work.

Advocates of a reduction believe that NIH spending is excessive. They point to its rapid growth--about 50 percent between 1981 and 1986, or 25 percent after accounting for inflation. They also note that operational overhead is consuming a large and growing proportion of NIH's total funding for grants, averaging about 30 percent in 1986.

Opponents of a reduction maintain that cuts could have some adverse effects on the country's biomedical research. They contend that some researchers who receive reduced or no funding might leave the field, because private support would probably not increase enough to offset this reduction. Opponents are especially concerned that cutbacks could seriously hurt research in diseases such as Acquired Immune Deficiency Syndrome and Alzheimer's disease, depending on priorities established by the Congress and the Institutes.

NDD-04 REDUCE SUBSIDIES PROVIDED BY THE RURAL ELECTRIFICATION ADMINISTRATION

Savings from CBO Baseline	Annual Savings (millions of dollars) 1988	1989	1990	1991	1992	Cumulative Five-Year Savings
Budget Authority	40	150	240	300	350	1,080
Outlays	40	150	240	300	350	1,080

The Rural Electrification Administration (REA) is an agency within the Department of Agriculture that provides financial assistance to rural electric and telephone cooperatives. In 1973, the Congress set up the Rural Electrification and Telephone Revolving Fund to provide direct loans to rural utility cooperatives at an interest rate of 5 percent, and to authorize the REA to fully guarantee loans made to cooperatives by other lenders. At that time, the 5 percent rate was about 1 percent below the then prevailing long-term Treasury borrowing rate. Since then, however, the gap between the 5 percent rate paid by the cooperatives and the interest rate that the REA pays to finance the direct loans has widened considerably. This gap was near 10 percent in 1984, but has shrunk to less than 3 percent. The REA program provides the cooperatives a twofold subsidy. First, cooperatives can obtain direct loans at below-market interest rates. Second, since the federal government assumes the full risk of the REA guaranteed loans, the cooperatives get financing at below-market cost on funds obtained from non-REA lenders. Budgetary savings could result from modification of loan terms and other changes that reduce these subsidies.

In 1986, the REA provided roughly $960 million in direct loans at the 5 percent interest rate, and financed about 54 percent of these by borrowing from the Federal Financing Bank (FFB). The REA must borrow from the FFB because its lending levels, set by the Congress, exceed its fund income from loan repayments. The REA must pay interest on these FFB borrowings at the Treasury rate which peaked at over 16 percent in 1984, falling to 7.4 percent in 1986, still above the 5 percent rate the REA charges.

Because of this large interest rate subsidy, the Congress has appropriated roughly $520 million since 1984 to the REA fund to cover interest losses. At current lending and appropriation levels, however, the fund remains in danger of defaulting on its $7.9 billion loan from the Treasury, which is due beginning in 1993, and on some of its borrowings from the FFB. Decreasing the size of the federal subsidy that the REA program provides to utility cooperatives would help reduce the level of future appropriations necessary to keep the fund solvent.

Simply raising the interest rate for REA's direct loans to equal the Treasury rate, however, will not generate significant additional income for the fund during the next decade because the gap between current Treasury interest rates and the REA 5 percent interest charge is small. (The large interest rate subsidy provided by REA loans made in the early 1980s, however, will continue to drain the fund's resources.) To realize further federal budgetary savings, the Congress could lower the ceiling on REA direct loans to about two-thirds of the 1986 new loan level of $860 million. If the REA targeted its direct loans toward those cooperatives most dependent on federal financing, the effect of reducing REA's lending levels would be small and more equitable. (Currently, the REA makes loans to cooperatives without regard to the utility's financial condition, although many REA borrowers are financially healthy enough to obtain financing in the private market.) Taken together, increasing REA's interest rate to equal the Treasury rate and decreasing the levels of REA loan obligations by about one-third would reduce net federal spending by about $40 million in 1988, and by nearly $1.1 billion over the 1988-1992 period.

The REA has largely fulfilled its goal of making electric and telephone service available in rural communities. Proponents of the current REA program argue, however, that many cooperatives still depend on the low-interest REA loans to expand and maintain viable electric services to rural communities. They claim that increasing the interest charges or reducing the amount of REA loans provided to these cooperatives would raise the utility bills of their customers, particularly affecting the more rural, less densely populated regions. Raising the REA interest rate would have little effect on most cooperatives' rates, however, as interest charges account for only a small percentage of the average ratepayer's bill. Furthermore, reducing the level of REA's direct loan program would decrease federal subsidies to the financially sound cooperatives while still providing federal financing to cooperatives that truly need it.

NDD-05 REDUCE FEDERAL FUNDS FOR RESEARCH AND DEVELOPMENT IN ENERGY SUPPLY AND CONSERVATION

Savings from CBO Baseline	Annual Savings (millions of dollars) 1988	1989	1990	1991	1992	Cumulative Five-Year Savings
Budget Authority	1,970	2,220	2,340	2,450	2,570	11,550
Outlays	940	1,730	2,150	2,330	2,470	9,620

The Department of Energy (DOE) funds research and development (R&D) in two main areas: new or nonconventional energy-generating technologies (supply R&D) and conservation. Most of the federal funding for these activities is intended to complement, not substitute for, private-sector efforts. However, existing market incentives for developing improved technology for generating energy and to economize on energy use may be sufficient to warrant an extensive reduction of federal support.

In supply R&D, all support for research programs in fossil fuels, solar and renewable resources, energy science, and other areas could be eliminated, assuming that the private sector would continue to support research that appeared commercially promising. Federal support for civilian research in fission power (except funding for cleaning up uranium mine wastes) could also be eliminated because of this technology's high degree of commercialization and the ability of the private sector to conduct appropriate research. However, because the private sector could not reasonably be counted on to continue fusion R&D, which has little immediate commercial value, federal funding in this area would continue. Also, the $400 million already appropriated for research on clean coal technology would be spent in accordance with the current agreement with the Canadian government. (This budget option assumes, however, that the Congress will not appropriate any additional funds for clean coal research.) Eliminating appropriations for all other activities relating to energy supply R&D would result in estimated outlay savings of nearly $915 million in 1988 and $8.9 billion over the 1988-1992 period.

The Department of Energy also provides funding for conservation research and development, including projects on buildings and community systems, industrial conservation opportunities, and transportation applications. Eliminating these programs would save the federal government $25 million in 1988 and $680 million over the 1988-1992 period.

Critics of reduced support contend that private-sector research efforts may not increase to the overall level experienced when federal R&D support was available, since the returns from successful R&D may be less beneficial to private firms than to society. For example, these uncaptured benefits might include the future security of national energy. Also, short-term economic conditions can inappropriately influence the allocation of private funds intended for long-term technological development. Finally, if private R&D does not compensate for withdrawn federal support, the competitive position of U.S. energy-related products may suffer compared with products developed in countries that maintain high levels of funding for energy-related R&D. Targeting the cutbacks, rather than eliminating funding for supply R&D, could result in substantial savings with minimal disruption of all existing programs.

NDD-06 ELIMINATE ENERGY CONSERVATION GRANTS

Savings from CBO Baseline	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1988	1989	1990	1991	1992	
Budget Authority	210	220	230	230	240	1,130
Outlays	50	190	210	230	240	920

In addition to conducting research on energy conservation, the Department of Energy (DOE) also distributes grants to state and local governments to finance energy conservation activities. These activities include weatherization of schools, hospitals, and the homes of low-income families. Eliminating this program could save nearly $1 billion over the 1988-1992 period.

If federal support were eliminated, state and local governments could choose to continue such programs themselves, or rely on private incentives for conservation efforts. In addition, states have received nearly $3 billion in the last two years from the settlement of oil pricing and allocation violations, which has been earmarked for energy conservation activities. In many regions, weatherization of public buildings is nearly complete. State and local governments could continue providing funds for low-income families, or encourage public utilities, energy corporations, and even private charities to support weatherization and other conservation efforts. And even at current energy prices, market incentives for increased conservation probably still exist.

Proponents of conservation grants argue that the federal government should continue to encourage conservation even when lower energy prices reduce private incentives (through longer pay-back periods), because the national goal of long-run energy security should not be affected by the short-run economics of world energy markets. Moreover, the federal government has already allowed the tax credit for energy conservation to expire, making weatherization more expensive for individual homeowners. Finally, if oil prices increased once again, low-income families might bear a disproportionate hardship, since their residences tend to be less energy efficient.

NDD-07 CHANGE REVENUE-SHARING FORMULA FROM A GROSS TO A NET RECEIPT BASIS FOR THE NATIONAL FOREST TIMBER SALES PROGRAM

Savings from CBO Baseline	Annual Savings (millions of dollars) 1988	1989	1990	1991	1992	Cumulative Five-Year Savings
Budget Authority	240	200	200	200	200	1,040
Outlays	240	200	200	200	200	1,040

The U.S. Forest Service, a part of the Department of Agriculture, manages the National Forest System which comprises 191 million acres--about one-third of all federal lands in the United States. The national forests produce about 20 percent of the sawtimber harvested annually in the United States and contain nearly 1.1 trillion board feet of standing sawtimber, or about 41 percent of the nation's total. Although the national forestlands are a multipurpose natural resource, the forest timber sales program accounts for the largest share of the Forest Service's annual costs and receipts.

Since 1908, 25 percent of federal gross receipts from timber sales has been shared with the representative states and local communities as compensation for lost tax revenues from the federal lands in their boundaries. The costs incurred by the Forest Service in managing the timber resources, however, are expected to exceed the federal share of Forest Service receipts (most of which are associated with timber sales) by about $200 million in 1987. Since payments to states and localities (and the remaining federal share) are based on gross receipts--regardless of costs--there is a tendency to maximize gross receipts. In general, this means a larger harvest than if costs had been taken into account. In many of the timber sales in certain Forest Service regions--particularly the Eastern, Northern, Intermountain, Rocky Mountain, and Alaskan regions--the costs of the Forest Service's timber program exceed the generated gross revenue, even before the states' share is paid. In other regions, particularly the Pacific Northwest and the South, the Forest Service accrues positive net receipts from its timber sales program.

Federal savings would be substantial if the Forest Service would deduct the cost of its timber program from its gross timber receipts before making payments to states and local governments. The regional jurisdictions would continue to receive 25 percent of the Forest Service's net timber receipts, or roughly $25 million in 1987. Some localities (mainly those in the nonprofitable regions mentioned above) would lose all timber receipts from the Forest Service under this proposal. However, local governments also receive money from the federal Payment in Lieu of Taxes (PILT) program, established in 1976 to offset the effects of nontaxable federal lands on local governments' budgets. These PILT payments are partially reduced by the amount of the revenue-sharing payments from the Forest Service. Costs to the federal government under the PILT program would increase, therefore, if the option to share net rather than gross receipts were implemented. These costs have been netted out of the projected savings. Changing the revenue-sharing formula from a gross receipt basis to the more economically efficient net receipt basis would reduce net federal outlays by about $1 billion over the 1988-1992 period.

Deducting costs from gross timber receipts before making payments to local governments would likely reduce the timber harvest on unprofitable timber stands in national forestlands. Although basing the revenue-sharing formula on net receipts would lead to more efficient use of the national timber resources, many local areas that depend on the timber sales program for jobs and federal revenue may be hurt economically under the measure discussed above. To help mitigate this hardship, the Forest Service could switch to the net receipt basis over a period of several years and promote other uses of the forestlands in these areas, such as tourism and recreation.

NDD-08 END FUNDING FOR THE LEGAL SERVICES CORPORATION

Savings from CBO Baseline	Annual Savings (millions of dollars) 1988	1989	1990	1991	1992	Cumulative Five-Year Savings
Budget Authority	320	340	360	380	400	1,800
Outlays	320	340	360	380	400	1,800

The Legal Services Corporation (LSC)--an independent, not-for-profit organization established in 1974 legislation--provides free legal assistance to the poor in civil matters. Despite repeated attempts by the Administration to abolish the program, the Congress has continued to fund it. Terminating the LSC would generate five-year outlay savings of about $1.8 billion through 1992. It also would end direct federal funding for legal assistance. States could, however, use federal funds from social services block grants to meet local priorities for legal aid. Such grants totaled $2.6 billion in 1986, about eight times the funding level for LSC.

From its inception, the LSC has been the subject of much controversy. Critics have charged that the activities of legal aid lawyers too often focus on the advancement of social causes rather than on the needs of poor people with routine legal problems. The Administration and opponents of the LSC believe that the responsibility for legal assistance to the poor should rest not with the federal government but with states and localities. From this perspective, support from other federal grants, private sources, and donated services could help to meet local needs for legal aid. Such an approach, critics argue, would give localities more control over legal aid programs, and would thus permit services to be more responsive to local needs.

Advocates of continuing the LSC argue that a specifically targeted federal assistance program is the only way to ensure that legal aid is available to people who cannot pay. They point out that the inadequacy of local and private resources was one of the factors that led to direct federal financing in the first place, and they believe that a strong federal program provides essential oversight and national direction. In response to the continued criticism that LSC lawyers act too often as social activists, proponents of the program point out that restrictions passed by the Congress over the years have already curtailed the activities some observers find objectionable.

NDD-09 SHIFT HOUSING ASSISTANCE FROM NEW CONSTRUCTION TO VOUCHERS

Savings from CBO Baseline	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1988	1989	1990	1991	1992	
Budget Authority	1,350	1,350	1,400	1,450	1,500	7,050
Lending Authority	410	430	450	470	490	2,240
Outlays	a/	20	130	260	310	720

a. Increase in outlays of less than $2.5 million.

Each year, the federal government makes new 5- to 30-year commitments under various programs to provide rent subsidies for an additional number of low-income households not currently receiving aid. The amounts of each type of additional assistance are determined by the Congress. Rental assistance is provided in two ways: through subsidies tied to projects specifically constructed for low-income households, and through subsidies that enable renters to choose standard housing units in the existing stock of private housing. In recent years, the production-oriented approach has been sharply curtailed in favor of the less costly existing-housing approach. Of the new construction programs administered by the Department of Housing and Urban Development (HUD), only two remain active--the Section 202/8 program for new construction for the elderly and handicapped, and the public housing program. For 1987, less than 20 percent of additional commitments is for construction of new dwellings under these programs, while the remaining incremental aid is provided through the Section 8 existing-housing and voucher programs.

Appreciable savings could be realized by further reducing commitments for the Section 202/8 program--from 12,000 to 4,000, for example--and replacing them with vouchers. This option would slightly increase outlays in 1988 but would save $720 million over the 1988-1992 period, relative to the baseline, with additional savings continuing to accrue for more than 20 years thereafter. Short-term savings in outlays would result primarily from reductions in direct loans to developers of the projects, while long-term savings would accrue because of the lower subsidies associated with vouchers compared with Section 202/8 aid. (The reduced need for direct loans would also generate savings in lending authority. Savings in budget authority would be derived primarily from the shorter contract term of vouchers--5 years versus 20 years--and, to a lesser extent, from the lower subsidies associated with vouchers.)

Proponents of this option argue that the need for subsidizing new construction is not pressing because the overwhelming housing problem today is not a shortage of rental units but the inability of poor households to afford the rents that existing units command. Furthermore, in many instances, subsidizing new construction merely displaces private activity rather than adding to the housing stock. Thus, proponents conclude, vouchers can help alleviate high housing expenditures for poor households at a faster rate and at much lower cost to the federal government. Proponents also point out that vouchers give households greater flexibility in choosing where they want to live.

Opponents of reducing commitments for new construction contend that national statistics on the supply of rental units mask local shortages in units that are suitable for the elderly and the handicapped and that rent for amounts within HUD's guidelines. They claim that many elderly and handicapped households need housing that can provide special social and physical services not available in their current residence, but that the private sector does not respond adequately. Thus, they argue, the government must continue to stimulate this sort of construction.

NDD-10 PHASE OUT SUBSIDIES FOR FLOOD INSURANCE AND CROP INSURANCE

Savings from CBO Baseline	Annual Savings (millions of dollars) 1988	1989	1990	1991	1992	Cumulative Five-Year Savings
Crop Insurance						
Budget Authority	0	110	200	370	530	1,210
Outlays	0	170	310	570	830	1,880
Flood Insurance						
Budget Authority	25	55	85	90	90	345
Outlays	25	60	90	100	110	385

The federal government provides insurance protection against property losses to farmers and to residents of coastal and riparian flood zones. Participants in the crop insurance and flood insurance programs have received subsidized protection against losses, because the premiums that were charged have not covered payments for losses and the administrative costs of running the programs. Shortfalls have been financed with new appropriations and borrowing from the Commodity Credit Corporation and the Treasury.

Savings of $2.3 billion over five years could be realized if premiums were increased to cover the full costs of offering the protection. This action would return the programs to the model of a normal insurance operation, which seeks to have premiums cover payments for losses and administrative expenses (and in the private sector, tax payments and a return on investment). The Administration proposed similar increases in premiums in 1986. The savings estimate in this option assumes that premiums would be increased to actuarially sound levels over three years.

Government provision of flood and crop insurance has often been justified by the nature of the risks against which these programs provide protection. Predicting the timing and severity of floods, droughts, insect infestations, and diseases is inherently difficult. Furthermore, when losses occur, they tend to be catastrophic, affecting many of the insured and being highly concentrated by area. Early attempts by private insurers to offer coverages for these risks led to significant losses, partially because of the lack of good underwriting information. These insurers also were unable to build up sufficient reserves before the occurrence of catastrophic events. The federal government, in contrast, was able to finance losses in the start-up periods, and had the capability in various agencies (the Geological Survey, the Corps of Engineers, and the like) to develop underwriting standards. Consequently, the government undertook the provision of crop insurance in 1938 and flood insurance in 1968.

When these programs were established, it was not envisioned that the programs would be subsidized over the long run. Development of effective practices for underwriting and adjusting losses has proved difficult, however, and the costs of administering the programs are now very high (exceeding 40 percent of premiums written). But premiums have not been increased to cover these costs and the payments for losses. In the past five years, premiums have averaged less than half of total costs for crop insurance, and three-quarters of total costs for flood insurance.

Both programs have been used for purposes other than providing simple insurance protection. The crop insurance program has provided income support, particularly after 1980 when the subsidy was increased. The goal was to expand participation in the program in order to substitute insurance protection for costly grants and loans for disaster relief. The flood insurance program was subsidized in hopes of providing an incentive to local communities to adopt cost-effective policies for floodplain management. Whether these benefits are worth the costs, however, is not clear. The expansion and subsidization of the crop insurance program did not prevent the appropriation in 1986 of $400 million for disaster relief grants. Nor is it clear that the availability of subsidized flood insurance has substantially improved floodplain management, as zoning standards--when they are enforced--are an effective method of reducing actual losses only in floodplains with minimal development. In areas with preexisting development, the program often subsidizes those who built or bought in floodplains with knowledge of the risks they were taking. Some analysts have suggested that the availability of subsidized insurance actually encourages development in these locations.

If premium increases lead to the withdrawal of substantial numbers of participants--a distinct possibility in both programs as they are currently structured--the programs could end up insuring very small and risky groups of participants. This problem of "adverse selection" could be minimized for crop insurance by requiring participation in the program by those who would want to participate in other USDA commodity programs. Adverse selection for flood insurance could be minimized by requiring all local communities to participate or become ineligible for any federal assistance. These requirements might be considered too harsh or too intrusive. On the other hand, the insurance mechanism might not work unless similar requirements are adopted. In the long run, it might be more costly if the elimination of disaster insurance were to lead to the frequent use of grants or loans for disaster relief, as was the case in the 1970s.

NDD-11 CONVERT UNDERUSED ACUTE-CARE BEDS IN VA HOSPITALS

Savings from CBO Baseline	Annual Savings (millions of dollars) 1988	1989	1990	1991	1992	Cumulative Five-Year Savings
Budget Authority	10	120	180	240	310	860
Outlays	35	110	170	230	290	840

The Veterans Administration (VA) provides a wide range of medical and health-related services, and operates 172 hospital centers and 118 nursing homes. The rising demand for long-term care, largely a result of the rapidly increasing number of elderly veterans, has led the VA to expand its number of beds for long-term care, primarily by constructing new nursing homes. About 20 percent of VA hospitals have very low occupancy rates, however, and one-tenth of the total acute-care beds are now used for patients needing long-term care.

If the VA converted its underused acute-care beds to nursing home care, it could scale back plans for the costly construction of new VA nursing homes. In some areas, entire underused VA hospitals could be converted to nursing homes, which would reduce their staffing and equipment costs. Most underused beds would be immediately available for conversion, but delays could occur in some cases since alternative arrangements would have to be made for the current patients. Converting roughly 5,000 of the VA's 77,500 hospital beds would save $35 million in outlays in 1988 and about $840 million over the 1988-1992 period. This savings estimate assumes both higher costs for the alternative arrangements for some current patients and some increased transportation benefits for veterans who might seek care from other VA facilities.

Advocates of such conversions point to the prospect of better suiting VA medical services to the patients being treated. They suggest that, because elderly veterans are a growing proportion of VA patients, an imbalance exists in the ratio of hospital to nursing home beds. Opponents counter that aging veterans will need more acute-care treatment, as well as more services for long-term care. They view the potential closing of hospitals in some areas as reducing access to care for veterans who might prefer care in VA rather than private-sector hospitals.

Legislation would be required to allow the VA to pursue the conversion of a significant number of hospital beds. Current law now requires the VA to staff and operate a combined total of at least 90,000 hospital and nursing home beds, and the conversion process could temporarily lower the total number below that minimum.

An alternative approach would be for the VA to sell some of its underused facilities to operators of private nursing homes. Proponents point out that such a plan would result in considerable federal savings during periods of budgetary stringency, and that it could benefit elderly nonveterans over the long run. Opponents counter that local market conditions might severely limit the VA's net income from the sales. Moreover, they contend that savings from such an option would be partially offset by higher spending by Medicare or Medicaid for nursing home patients, particularly if increases in the number of beds would allow greater use of services in some localities.

NDD-12 RECOVER THE OPERATING COSTS OF SELECTED REGULATORY AGENCIES

Addition to CBO Baseline	Annual Added Revenues (millions of dollars) 1988	1989	1990	1991	1992	Cumulative Five-Year Addition
USDA	145	300	465	470	480	1,860
FDA	100	205	310	320	325	1,260
FCC	10	20	35	35	35	135
CFTC	10	20	30	30	35	125

The activities of many regulatory agencies benefit regulated industries as well as the general public. Many of these agencies are funded primarily from general revenues. Others charge fees and assessments that raise enough income to meet or exceed the levels of their expenditures. Registration and filing fees for securities, for example, produce receipts that exceed the Securities and Exchange Commission's expenses. Similar cost recoveries could be applied to selected regulatory activities--specifically those of the U.S. Department of Agriculture (USDA), the Food and Drug Administration (FDA), the Federal Communications Commission (FCC), and the Commodity Futures Trading Commission (CFTC). These activities provide specific benefits to identifiable recipients, who could be charged for these benefits in a cost-effective manner. Activities of regulatory agencies that benefit only the general public--dissemination of information, for example--would be left unrecovered. For those areas in which cost recovery is considered, a three-year phase-in is analyzed.

When the USDA inspects the processing of meat, poultry, and other agricultural products, it provides a quality control system for the food industry free of charge. Recovering the full costs of the department's four food inspection services could save nearly $1.9 billion over five years. In its budget for 1987, the Administration proposed similar license and inspection fees, which would be paid by processors to the Treasury.

By assuring doctors and consumers of product quality, the FDA's regulation of drug safety and efficacy benefits the pharmaceutical industry. The costs of the FDA's drug regulation could be recovered from pharmaceutical companies, saving $1.3 billion over five years. In 1985, the FDA itself proposed that the costs of new drug applications be recovered through fees, but this practice has not been implemented. The costs of other drug-related activities--inspection of manufacturing plants, for example--could be recovered through a general assessment on pharmaceutical company sales.

The FCC could recover all of the costs it incurs in assigning licenses to mass media and private radio operators. These franchises are valuable, since they are awarded from a transmitting spectrum that is physically limited, yet they are awarded at no charge to applicants. The FCC spends a great deal of time and other resources on considering applications. The Consolidated Omnibus Budget Reconciliation Act of 1985 required the FCC to charge fees for reviews, but when fully implemented these fees will recover less than half of the FCC's costs. Were licenses to be awarded instead by auction, administrative reviews might become unnecessary, leading to lower costs. The Administration has proposed an auction of part of the unassigned spectrum in the 1988 budget. Another cost-recovery approach could be to establish a broadcast tax that would capture a portion of the franchise value of existing mass-media franchises. Both the auction and broadcast tax approaches could raise revenues far in excess of the FCC's unrecovered administrative costs. Limiting recoveries to these costs would produce $135 million in additional revenues over five years. (This estimate does not include the common carrier costs of the FCC, which are already exceeded by telephone excise taxes.)

Finally, the CFTC supports public confidence in futures markets by regulating abusive trade practices. The Securities and Exchange Commission performs the same function for the securities markets, while recovering its full costs. If the cost-recovery approach were applied to the regulation of commodity futures, $125 million could be saved over five years.

The clear public benefits these regulatory activities yield might justify financing from general revenues. In addition, many industries oppose regulation, claiming that it constrains profits by setting overly stringent requirements and by needlessly delaying market entry. Cost recovery would add insult to injury for industries that take this position. On the other hand, many of the regulatory activities cited here benefit the regulated industries and are carried out with their general support. The government-provided quality control system for drugs, for example, reduces the pharmaceutical industry's need to insure against liability suits. With budgetary constraints threatening to curb spending on regulation, a shift to user financing might assure the continuation of regulatory activities, or even permit an increase. An example might be new FDA user fees, which could speed up the processing of new drug applications. This effect would only be realized, however, if user fees were dedicated specifically to the agencies' accounts.

NDD-13 END DIRECT AND INDIRECT POSTAL SUBSIDIES

Savings from CBO Baseline	1988	1989	1990	1991	1992	Cumulative Five-Year Savings
	Annual Savings (millions of dollars)					
End Direct Subsidies						
Budget Authority	160	660	690	720	750	2,980
Outlays	160	660	690	720	750	2,980
End Indirect Subsidies						
Budget Authority	20	35	370	360	-680	105
Outlays	430	1,500	1,700	1,550	420	5,600
Total						
Budget Authority	180	695	1,060	1,080	70	3,085
Outlays	590	2,160	2,390	2,270	1,170	8,580

NOTE: Estimates represent net changes to the federal deficit rather than the USPS budget accounts.

Under current law, direct and indirect subsidies to the U.S. Postal Service (USPS) allow postage rates to be set somewhat below the actual cost of moving the mail. Although recent legislation requires the USPS, beginning in January 1987, to assume the full cost of benefits for all postal workers covered by the new Federal Employees Retirement System, an indirect subsidy will remain because pension benefits for employees who stay under the old Civil Service Retirement system will continue to be underfunded. In addition, direct appropriations to the USPS, called "revenue forgone," burden taxpayers with the costs of postal services for certain preferred mail users--primarily religious and other not-for-profit organizations, blind and otherwise handicapped people, small-circulation newspapers, and libraries. If both the direct subsidies (except those benefiting blind and otherwise handicapped people) and the remaining indirect retirement subsidies were eliminated, five-year outlay savings would total $8.6 billion. The estimated budgetary savings reflect full recovery of postal costs made possible by increased postage rates. The option would eliminate both subsidies in time